REINVEST

Planting the seeds for long-term growth.

Perle Systems Limited • 1997 Annual Report

CORPORATE OVERVIEW

Corporate Profile

Perle Systems Limited, founded in 1976, is a developer, manufacturer and seller of award-winning data communications software and hardware products.

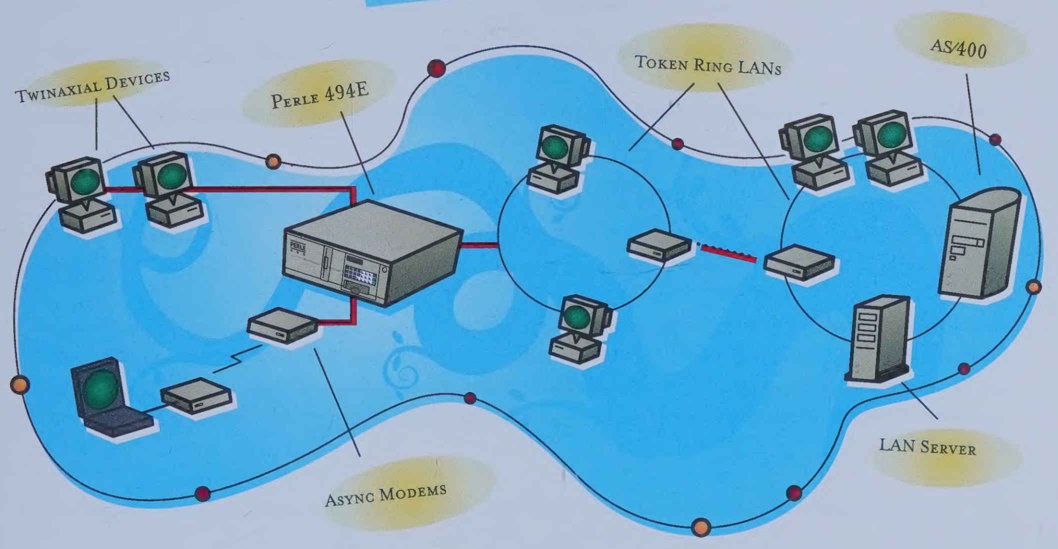
A public company, traded on both Nasdaq (PERLF) and TSE (PL), Perle's corporate goal is to have dependable long-term growth in the value of the Company. Value represented by: an excellent reputation as a result of customer satisfaction, sustained profits and opportunity for employees.

The Company, together with its subsidiaries, produces computer products for the remote access segment of the computer networking industry. Perle develops, designs, manufactures and sells remote network controllers, workstation controllers, protocol converters and LAN Remote Access Servers which are used to interconnect its customers' computing resources.

Perle Systems is an international organization, with 29 sales offices in 15 countries spanning five continents. Customers get local assistance from Perle's leading edge hot-line support group, complimented by a world-wide network of distributors, dealers and resellers.

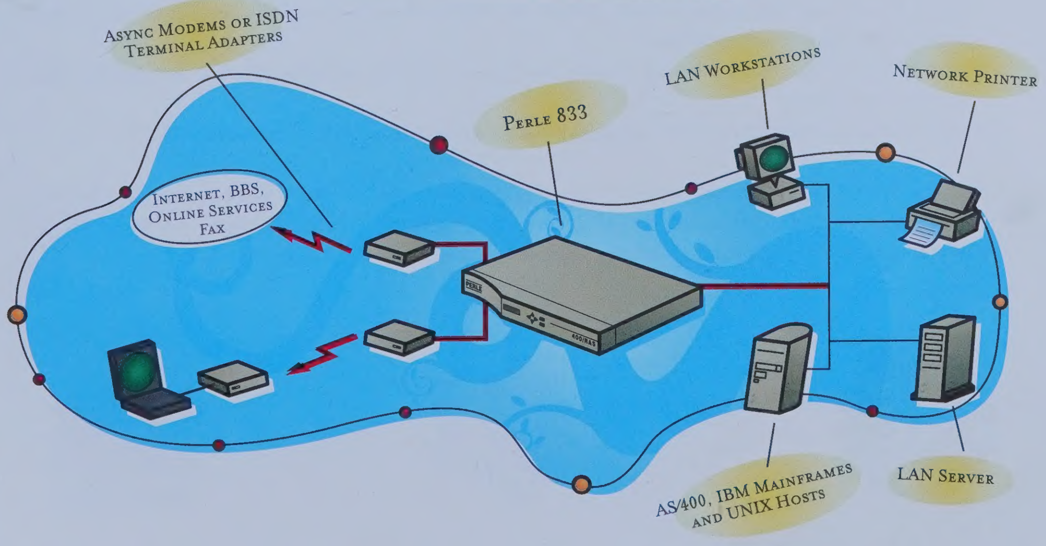
Products	*Market*	*Strategy*	*Results*
AS/400 Remote Access	All networks using AS/400's that require remote communications. Over 400,000 AS/400's worldwide. Perle has over 30% of the market with approximately 10,000 customers.	• To aggressively pursue the profitable world wide AS/400 connectivity market with products that are technologically superior to IBM • Leadership in compatible controllers (Reputation for world class support)	• AS/400 sales represent 90% of total sales • Current strategy changes focus to profitability not sales growth • Gross margins in the 4th Q are 69% – a record high for Perle • Perle remote controllers support TCP/IP before IBM
LAN Remote Access **• Perle 833** **• Perle 400/RAS**	All LAN users who require access to their LAN resources. Currently estimated to be $1.9 billion US annually, growing to $4.9 billion US by 2000.	• To invest substantially all profits into accelerating growth in this portion of Perle	• Sales growth 100% for the fiscal year 1997 • Releasing significant product features every month • Remote Access switch in fiscal 1998

AS/400 Connectivity



Fully compatible with IBM 5494, the Perle 494E offers additional expandability plus enhanced features such as TCP/IP and dial up support not found on IBM's 5494.

Remote Access Server for LANs



The Perle 833 Remote Access Server offers exceptional value to companies that need remote user access to LAN-based mission-critical applications and data.

MESSAGE TO SHAREHOLDERS

Fiscal 1997 marked a year of change for the Company

The Company instituted significant changes this year — changes made in accordance with our goal of dependable long-term growth in value.

These changes reflected the implementation of our current strategy, which provides for continued investment in the Remote Access connectivity portion of our business. This investment is to be fully financed by profits from the sales of AS/400 connectivity products.

Our strategy aims to set the stage for a significantly increased rate of sales growth in the Company which would be accompanied by healthy profits. Sales growth is anticipated to come from the large and fast-growing Remote Access marketplace. Profits would initially come from sales of our AS/400 connectivity products and then, as sales of Remote Access products become a significant portion of the Company, from sales of those products.

This strategy, implemented in the second quarter of this year, has already resulted in several important achievements:

- Sales of Remote Access products more than doubled in the second half of fiscal 1997.
- Profits recorded for the second half turned around losses from the first half.
- The Company successfully launched the new product positioning for the Remote Access products that resulted in over 100 resellers selling Perle Remote Access products.
- Advertising and promotional activities were reorganized to better support the new reseller base for Remote Access products.
- The required changes were made to the Company's Customer Support and Service processes, so that Perle reseller sales people know that Perle Remote Access products can be Sold On Support™.
- The award-winning Perle Remote Access products are helping to ensure that Perle resellers get the highest value on the sales of a Perle product.
- Development of AS/400 connectivity products went beyond IBM compatibility, creating even greater value for Perle customers.
- Cash reserves increased by approximately $1.3 million in the second half of the fiscal year.

Over the past 20 years, Perle has delivered long-term growth in the Company's value by providing full featured reliable connectivity products, including technical assistance. Perle is effectively positioned for the advancement growth — growth to become a significant supplier of Remote Access Products.

Perle

Joseph E. Perle, President and Chief Executive Officer

CRITICAL ACCLAIM

"Recommended! [Perle 833] Exceptional value to companies that need remote user access to LAN-based mission-critical applications and data." **Computer Reseller News, July 1997**

"1997 Showcase Product Excellence Award. First Place in Networking: The Perle 494E. The Perle 494E controller is really easy to install and offers an outstanding feature set." **Technology Showcase, June 1997**

"AS/400 shops carry enough clout to merit a remote access server built specifically for them. Perle's 400/RAS supports AS/400 networking, addressing and emulation features that other leading LAN-based remote access servers don't address." **ComputerWorld, November 1996**

AWARDS

RELIABLE

Profitable AS/400 connectivity product sales provide a reliable source of seeds for growth.

As enterprise networks grow and diversify, the challenge of making AS/400 based data and applications available to all corporate users is becoming more and more complex. These diverse users may be on Twinax enabled PC's or terminals, Token Ring or Ethernet LAN's, or they may even be dialing in from home or on the road. Providing AS/400 access in these complex multi-protocol networks can be expensive to implement and difficult to maintain. The Perle line of AS/400 remote connectivity products addresses these networking challenges head-on.

In the AS/400 market, Perle is a world leader in midrange remote connectivity products. These include IBM 5393 and 5494 compatible remote controllers as well as dial-up servers and terminal emulation software.

For six consecutive years the Perle AS/400 remote controller products have been awarded the Buyer's Choice Award for innovation and reliability from Midrange Systems Magazine.

Perle delivers reliable, high-performance products designed for easy installation and trouble-free use. Providing our customers with great value is a key element not only in our design philosophy but also in our approach to service and support.

Customers get much more than top-quality products when they deal with Perle. Perle and its employees give their total commitment to providing the most dependable and best value remote access products in the world.

Perle's strategy is to continue to aggressively pursue the profitable world wide AS/400 remote connectivity market with products positioned to be technologically superior to those of our main competitor, IBM; with world-wide recognition as the market leader for compatible controllers; and with a long-standing excellent reputation for customer support.

REINVEST

Just as strong, healthy roots promote growth, Perle's strategy and expertise provide the impetus for expansion in the Remote Access market.

Industry analysts report that over 40% of all medium to large organizations already have employees working in remote locations. The demand from field sales staff, telecommuters, branch office workers and even customers to gain real-time remote access to corporate applications and data is accelerating daily.

Typically, users in this large and rapidly growing market include traveling executives, sales persons and other personnel using notebook computers. As well, small branch offices, dealerships, franchises, and home workers are included, in situations where the limited amount of data traffic produced requires a solution less costly than that of maintaining a leased telephone line. Accordingly, the world-wide market for LAN Remote Access Servers is forecast to grow to $4.9 billion US by the year 2000 from 1996 sales of $1.9 billion US.

Perle's strategy is to invest substantially all of its profits into accelerating growth in the Remote Access portion of the Company. Investment in Research and Development will continue advancing our already highly featured product line and; investment in Marketing and Promotion will increase and enhance the family of Perle resellers and distributors.

Easy to install, manage and use, Perle's award-winning Remote Access products, the Perle 833 and the Perle 400/RAS, provide a cost-effective, complete solution to users in this marketplace, giving them access to their corporate LAN resources, just as if they were directly connected to their networks. The solution is complete in every sense of the word, including free unlimited hotline support, free software upgrades and free express replacement, all during the first year of ownership.


PERLE

RETURN

The seeds have been sown for the advancement of Perle's goal: dependable long–term growth in value.

With over twenty years of successful growth, Perle is poised to reap the benefits of another substantial market opportunity. How will Perle do it? Through experienced management using a strong, debt-free balance sheet and investing the profits of today for the future.

Investing for Success: to meet users' evolving needs, Perle invests millions of dollars in Research and Development each year to improve and expand its product lines.

Sold on Support™: Perle's Technical Assistance group provides the best after–sales support and service facilities available anywhere. Perle customers get unlimited toll–free access to customer support 24 hours a day, 365 days a year. This includes expert assistance with installation and configuration of their equipment as well as the diagnosis and resolution of any hardware or software problems they might encounter.

A Worldwide Presence: Perle Systems is a truly international organization. With 29 sales offices in 15 countries spanning five continents, customers get local support from Perle, complimented by a worldwide network of distributors, dealers and resellers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto.

Results of Operations

Fiscal 1997 Compared to Fiscal 1996

Sales - Sales were $43.9 million in fiscal 1997 compared to $46.3 million in fiscal 1996, representing a decrease of 5%. This overall decline was a result of a decline in sales of AS/400 products, offset by Remote Access Server ("RAS") sales that doubled to 10% of total revenues from 5% in fiscal 1996. The decrease in AS/400 sales took place during the second half of fiscal 1997 and its impact on profitability was more than offset by improved gross margins.

International sales decreased to $18.7 million, or 42.5% of total sales, in fiscal 1997, from $20.5 million, or 44.3% of total sales, in fiscal 1996. The percentage decrease in international sales in fiscal 1997 was primarily the result of consolidating all service operations and their associated revenue from the International Segment offices to the Americas Segment in the current fiscal year.

Gross Profit - Gross profit (being sales minus cost of sales) was $28.3 million in fiscal 1997 compared to $28.7 million in fiscal 1996, representing a decrease of 1%. As a percentage of sales, gross profit was 64.5% in fiscal 1997 and 62% in fiscal 1996. The improvement is due to the implementation of strategic initiatives during the second quarter of the current fiscal year to improve profitability on sales of the Company's AS/400 connectivity products. These initiatives included increasing selling prices and reductions in discounts to resellers.

Selling, General and Administrative - Selling, general and administrative expenses were $26.6 million in fiscal 1997 compared to $26.8 million in fiscal 1996, representing a decrease of 1%. A significant portion of these expenditures relates to the Company's marketing and advertising costs, $5.9 million in fiscal 1997 and $6.9 million in fiscal 1996. The decline in marketing and advertising costs relates primarily to the repositioning of the Company's RAS products toward resellers as opposed to end users, undertaken in the third quarter of fiscal 1997. The Company's strategy is to invest its profits in marketing and promotional expenditures of the RAS products to build a distribution channel and accelerate the growth of these products. As a percentage of sales, selling, general and administrative expenses increased 3% to 61% in fiscal 1997 from 58% in fiscal 1996.

Research and Development - The Company's research and development activities are currently directed toward adding new functions to existing products and developing new products for Perle's RAS and AS/400 markets. All of the Company's research and development costs are expensed as incurred. The Company's investment over the last five years averaged 12% of its annual sales. In fiscal 1997, the Company expended $5.7 million or 13% of sales. This amount compares to 12% or $5.6 million in fiscal 1996. The Company believes that its current research and development initiatives will be met by funds generated from operations. The Company anticipates continued significant investment in research and development. If the Company believes it can improve its current time to enter a particular market, it may acquire or license technology from other businesses as an alternative to internal research and development.

Income Taxes - The income tax recovery was nil in fiscal 1997 compared to $0.5 million in fiscal 1996. The fiscal 1997 tax recovery was a result of the Company not fully reflecting the benefit of current year losses. Had the Company recorded the full benefit of the current year's losses, the recovery would have been approximately $2.0 million in the current period.

The Company has unrecorded tax losses and discretionary tax deductions of approximately $11.4 million that are available to reduce future years' taxable income.

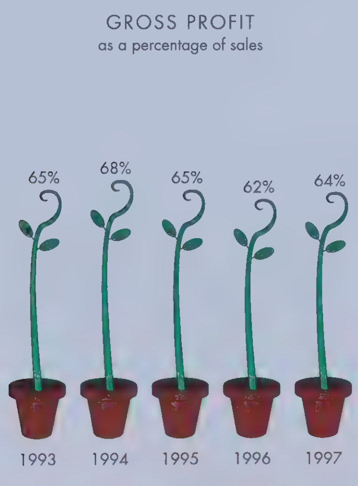
In the future, should the Company be able to utilize the unrecorded tax losses and discretionary tax deductions, the composite rate of income tax rate will be lower than the statutory rate.

Net Profit (Loss) - During fiscal 1997, the net loss after taxes was $4.9 million. The strategic initiatives implemented during the second quarter of fiscal 1997 resulted in net profit for the second half of $850,000. These strategic initiatives resulted in improved gross margins and reduced selling, general and administrative expenses in the third and fourth quarters. The earnings/(loss) per share for the second half of fiscal 1997 was $0.12 as compared to ($0.40) for the second half of fiscal 1996.

Future Prospects and Risks

From time to time, information provided by the Company or statements made by its employees may contain "forward-looking" information which involves risks and uncertainties. Forward-looking statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. In particular, statements which are not historical facts may be "forward-looking" statements. The Company's actual future results may differ significantly from those stated in any "forward-looking" statements. Factors that may cause such differences include, but are not limited to, the factors discussed below and the accuracy of the Company's internal estimates of revenues and operating expense levels.

The Company's quarterly operating results may vary significantly from quarter to quarter, depending on factors such as timing of significant orders and shipments of its products, changes and delays in product development, new product introductions by the Company or its competitors, and seasonal customer buying patterns. There can be no assurance that the Company will be able to continue its growth in revenues or sustain its profitability on a quarterly or annual basis. Sales can be difficult to forecast due to sales cycle variations depending upon the market place, distribution mechanism and end users. The Company's expense levels are based, in part, on its expectations of future revenues. If revenue levels are below expectations, operating results may be adversely affected.



The Company's Remote Communication AS/400 business is dependent on the related number of AS/400 computers and their features sold and in use. Should IBM choose to discontinue or modify supported features in this product line, or should it become obsolete, the Company could be materially adversely affected. The RAS market is highly competitive, and as such, the Company's growth is dependent upon its ability to enhance its existing RAS products and introduce new RAS products and enhancements on a timely basis. The Company's growth and ability to meet customer demand also depend in part on its ability to obtain timely supplies of raw materials from its vendors.

The Company operates in a market that is subject to rapid technological change and other market activities by its current and future competitors. Increased

SELLING, GENERAL & ADMINISTRATIVE
as a percentage of sales

competition could result in price reductions and reduced market penetration which would adversely affect the Company's revenues and profitability. There can be no assurances that the Company will be able to continue to compete successfully with new or existing competitors.

The Company conducts business worldwide. Global and/or regional economic factors and potential changes in laws and regulations affecting the Company's business, including, without limitation, communications regulatory standards, safety and emissions control standards, currency exchange rate fluctuation, changes in monetary policy and tariffs, and political uncertainties, could have an adverse impact on the Company's financial condition or future results of operations.

The market price of the Company's common stock could be subject to wide fluctuations in response to variations in operating results, changes in earnings estimates by analysts and market conditions in the industry, as well as global economic conditions and other factors internal or external to the Company.

Fiscal 1996 Compared to Fiscal 1995

Sales - Sales were $46.3 million in fiscal 1996 compared to $37.4 million in fiscal 1995, an increase of $8.9 million, or 24%. International sales were $20.5 million, representing 44% of total sales, and in fiscal 1996, $14.9 million, representing 40% of total sales, in fiscal 1995. These increases were the result of the continued success of the Perle 494E, the introduction of the RAS and increased market penetration in all geographic segments in fiscal 1996.

Gross Profit - Gross profit (being sales minus cost of sales) was $28.7 million in fiscal 1996 compared to $24.4 million in fiscal 1995, representing an increase of 18%. This increase was the result of increased unit shipments. As a percentage of sales, gross profit was 62% in fiscal 1996 and 65% in fiscal 1995. The change in gross profit as a percentage of sales reflects the Company's focus on improving product positioning for ease of use to differentiate Perle products from those of its competitors. As a result of this improvement, cost of sales includes additional labour costs incurred to implement and operate a world-wide multi-lingual customer assistance toll-free hot-line from a central location on a 24 hour a day, 7 day a week basis. Management does not expect the expenses related to this call centre to increase proportionally with sales.

Selling, General and Administrative - Selling, general and administrative expenses were $26.8 million in fiscal 1996 compared to $18.2 million in fiscal 1995, representing an increase of 47%. As a percentage of sales, these expenses increased 9% to 58% in fiscal 1996 from 49% in fiscal 1995. Specific initiatives related to the marketing and support expenses of establishing the RAS in the Local Area Network marketplace amount-

ed to approximately $3.1 million and a further amount of approximately $2.5 million related to increasing the Company's market share of the AS/400 connectivity products have been expended in the current year.

RESEARCH AND DEVELOPMENT
in thousands of dollars

Research and Development - The Company's research and development activities are currently directed toward adding new functions to existing products and developing new products for Perle's AS/400 and RAS markets. In fiscal 1996, the Company expended $5.6 million or 12% of its sales. This amount compares to 17% or $6.2 million in fiscal 1995. The decrease reflects the Company's investment in the initial development of the RAS in fiscal 1995.

Income Taxes - The income tax recovery was $0.5 million in fiscal 1996 compared to $0.2 million in fiscal 1995. The fiscal 1996 tax recovery is lower than the expected statutory rate as the Company did not fully reflect the benefit of current year losses. The impact of these losses is approximately $1.3 million.

The Company has unrecorded tax losses and discretionary tax deductions of approximately $7.3 million which are available to reduce future years' taxable income.

Financial Condition

Liquidity, Financial Resources and Working Capital - As at May 31, 1997, the Company had cash and accounts receivable financial resources of $15.2 million, a decrease of $6.1 million over those resources for the previous year which amounted to $21.3 million. This decrease is represented by decreases of $4.7 million and $1.4 million in cash and accounts receivable respectively. As a result of the strategic initiatives implemented during the second quarter of fiscal 1997, cash and cash equivalents, during the second half of the fiscal year, increased $1.3 million to $4.86 million at year end from $3.56 million as at November 30, 1997.

The decrease in cash results from cash used in operations amounting to $4.2 million and cash used in investing activities, principally the purchase of capital assets, of $0.6 million.

In addition to the financial resources of cash and accounts receivable, the Company has an unsecured operating line of credit of approximately $6 million, as described in note 10 to the consolidated financial statements, all of which is available as at August 8, 1997. The Company did not use this facility during the year. Working capital, as defined by current assets less current liabilities, decreased to $11.0 million at May 31, 1997, from $15.7 million on May 31, 1996. The Company believes it has sufficient financial resources to fulfill its currently planned operating and investing requirements.

Management believes that inflation did not have a material effect on operations during the fiscal year ended May 31, 1997.

CASH AND CASH EQUIVALENTS
in thousands of dollars

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Perle Systems Limited and its subsidiaries and all information in this annual report are responsibility of management and have been approved by the board of directors.

The consolidated financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgements and management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Corporation, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls.

Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for the preparation of consolidated financial statements, and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The board of directors carries out its responsibility for the consolidated financial statements in this annual report principally through its audit committee. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval to the board of directors. The shareholders' auditors have free and independent access to the audit committee.

These consolidated financial statements have been audited by the shareholders' auditors, Ernst & Young, Chartered Accountants, and their report is presented herein.

J. Douglas Langford, Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Perle Systems Limited:

We have audited the consolidated balance sheets of Perle Systems Limited as at May 31, 1997 and 1996 and the consolidated statements of loss, shareholders' equity and cash flows for each of the years in the three year period ended May 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three year period ended May 31, 1997, in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Toronto, Canada, June 26, 1997
Ernst & Young, Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(Canadian dollars) As at May 31,	1997	1996
Assets		
Current:		
Cash and cash equivalents	$ 4,863,935	$ 9,546,004
Accounts receivable	10,382,950	11,800,207
Inventories (note 4)	1,580,942	2,063,345
Prepaid expenses	1,235,889	1,355,202
Income taxes recoverable	1,612,102	901,066
Total current assets	19,675,818	25,665,824
Capital assets, net (note 5)	2,498,030	2,939,088
Other assets (note 6)	6,511,940	6,273,167
Total assets	$ 28,685,788	$ 34,878,079
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued liabilities (note 10c)	6,234,670	8,130,056
Deferred revenue	2,397,410	1,846,369
Total current liabilities	8,632,080	9,976,425
Shareholders' Equity:		
Common share capital – authorized: unlimited (issued and outstanding: 7,172,508; 1996 – 7,162,398) (note 7)	27,539,584	27,505,947
Deficit	(7,485,876)	(2,604,293)
Total shareholders' equity	20,053,708	24,901,654
Total liabilities and shareholders' equity	$ 28,685,788	$ 34,878,079

Commitments and other information (note 10)

On behalf of the Board

Director

Director

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENTS OF LOSS

(Canadian dollars)

For the years ended May 31,	1997	1996	1995
Sales	**$ 43,948,680**	$ 46,298,277	$ 37,394,209
Expenses:			
Cost of sales	**15,608,329**	17,599,735	13,030,488
Selling, general and administration	**26,587,951**	26,782,360	18,181,557
Research and development expenditures (net of ITCs)	**5,735,774**	5,610,734	6,190,071
Amortization of capital assets	**1,005,131**	866,963	743,937
Interest expense (income)	**(106,922)**	(313,135)	34,402
	48,830,263	50,546,657	38,180,455
Loss before income taxes	**(4,881,583)**	(4,248,380)	(786,246)
Income tax recovery (note 8)	**–**	(492,856)	(188,093)
Net Loss for the Year	**$ (4,881,583)**	$ (3,755,524)	$ (598,153)
Loss per Common Share (note 9)			
Basic	**$ (0.68)**	$ (0.58)	$ (0.11)
Fully diluted	**$ (0.68)**	$ (0.58)	$ (0.11)

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian dollars)

For the years ended May 31,	1997	1996	1995
Common Share Capital:			
Shares			
Opening balance	**7,162,398**	5,223,094	5,192,354
Issuance of common shares (note 7)	**10,110**	1,939,304	30,740
Closing balance	**7,172,508**	7,162,398	5,223,094
Amount			
Opening balance	**$ 27,505,947**	$ 11,368,567	$ 11,310,842
Issuance of common shares (note 7)	**33,637**	16,137,380	57,725
Closing balance	**$ 27,539,584**	$ 27,505,947	$ 11,368,567
Deficit:			
Opening balance	**$ (2,604,293)**	$ 1,151,231	$ 1,749,384
Net loss for the year	**(4,881,583)**	(3,755,524)	(598,153)
Closing balance	**$ (7,485,876)**	$ (2,604,293)	$ 1,151,231
Total Shareholders' Equity	**$ 20,053,708**	$ 24,901,654	$ 12,519,798

(See accompanying notes to the consolidated financial statements)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars) For the years ended May 31,	1997	1996	1995
Cash Provided by (Used in):			
Operating Activities			
Net loss for the year	**$ (4,881,583)**	$ (3,755,524)	$ (598,153)
Add (deduct) items not affecting cash:			
Investment tax credits recoverable	**(540,000)**	(1,070,000)	(1,155,990)
Amortization of capital assets	**1,005,131**	866,963	743,937
Deferred income taxes	**283,642**	(784,036)	(245,713)
	(4,132,810)	(4,742,597)	(1,255,919)
Net change in non-cash working capital balances related to operations	**(36,408)**	(1,855,507)	(955,783)
Cash used in operating activities	**(4,169,218)**	(6,598,104)	(2,211,702)
Investing Activities			
Loans to shareholders, officers and directors	**17,585**	209,024	(130,107)
Additions to capital assets	**(564,073)**	(1,233,646)	(1,245,448)
Cash used in investing activities	**(546,488)**	(1,024,622)	(1,375,555)
Financing Activities			
Issuance of common shares	**33,637**	16,137,380	57,725
(Decrease) increase in bank indebtedness	**–**	(1,078,895)	331,813
Cash provided by financing activities	**33,637**	15,058,485	389,538
Net increase (decrease) in cash and cash equivalents during the year	**(4,682,069)**	7,435,759	(3,197,719)
Cash and cash equivalents, beginning of the year	**9,546,004**	2,110,245	5,307,964
Cash and cash equivalents, end of the year	**$ 4,863,935**	$ 9,546,004	$ 2,110,245
Components of Net Change in Non-cash Working Capital Balances Related to Operations:			
Accounts receivable	**$ 1,417,257**	$ (5,932,149)	$ (857,376)
Inventories	**482,403**	799,991	(252,940)
Prepaid expenses	**119,313**	(283,752)	(368,849)
Income taxes recoverable	**(711,036)**	(208,394)	445,880
Accounts payable and accrued liabilities	**(1,895,386)**	3,636,455	(389,633)
Deferred revenue	**551,041**	132,342	467,135
	$ (36,408)	$ (1,855,507)	$ (955,783)

(See accompanying notes to the consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1997, 1996 and 1995 (Canadian dollars)

1. Description of Business

Perle Systems Limited (the "Corporation") together with its subsidiaries (the "Company") develops, manufactures, markets, sells and supports award-winning data communications hardware and software products. The Company's products include Remote Communications Controllers for IBM AS/400 networks and Remote Access Servers for local access networks. The Company specializes in products for customers who require remote access to their mission-critical applications with ease-of-use, extreme reliability, low cost and leading edge service and support. The Company sells these products world-wide through a combination of reseller and distribution channels and original equipment manufacturers.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in Canadian dollars following accounting principles generally accepted in Canada and conform, in all material respects, with accounting principles generally accepted in the United States.

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Perle Systems Inc. in the United States, Perle Systems Europe Ltd. in the United Kingdom, Perle Systems GmbH in Germany, Perle Systems S.A.R.L. in France, Perle Systems Asia-Pacific (Pte.) Ltd. in Singapore, Perle Systems K.K. in Japan, Perle Sistemi Italia s.r.l. in Italy, Perle Systems España S.A. in Spain, and Perle Systems Pty Ltd. in Australia. All significant intercompany accounts and transactions have been eliminated.

b. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from these estimates.

c. Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. The Company invests its excess cash in money market funds that are subject to minimal credit and market risk. All of the Company's cash equivalents are classified as available-for-sale.

d. Inventories

Inventories are stated at the lower of cost or market value. Cost is determined substantially on a first-in, first-out basis. The market value of finished goods and work in process is defined to be net realizable value, and for parts and materials is defined to be replacement cost.

e. Capital Assets and Amortization

Capital assets are originally recorded at cost. Amortization is recorded so as to amortize the cost of capital assets over the estimated useful lives of these assets on a straight-line basis at the following annual rates:

Office equipment	- 20%
Test equipment	- 33 1/3%
Computers	- 20%
Leasehold improvements	- over the terms of the leases

f. Revenue Recognition

The Company recognizes product revenue upon shipment of product. Revenue from product software and hardware support and maintenance contracts is deferred and recognized evenly over the term of the contract.

g. Income Taxes

Income taxes are accounted for on the tax allocation basis. Deferred income taxes on the consolidated balance sheets reflect the cumulative effect of timing differences between accounting income and taxable income.

Canadian Federal investment tax credits are recorded when the Company has incurred a qualifying expenditure and there is reasonable assurance that the tax credits will be realized. These investment tax credits are reflected as a reduction in the cost of the related expenditures.

h. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies, as well as the accounts of the Company's foreign subsidiaries, are translated as follows:

Monetary assets and liabilities	- at year-end rates
Non-monetary assets, liabilities and amortization	- at historic rates
Revenues and expenses other than amortization	- at average exchange rates for the year

Foreign exchange gains and losses on transactions during the year and on year-end translation of the accounts, which are reflected in income, are not significant.

i. Research and Development

Research costs are expensed as incurred. Development costs are expensed in the year incurred unless management believes a development project meets the generally accepted accounting principles for deferral and amortization. All development costs to date have been expensed as incurred.

j. Advertising and Marketing Costs

Advertising costs, which include all of the Company's marketing expenditures, are expensed as incurred. The Company does not incur significant costs associated with direct-response advertising and, as such, there are no capitalized advertising costs. Advertising costs expensed during the year ended May 31, 1997, were $5,870,166 (1996 – $6,893,567; 1995 – $2,924,071).

k. Accounting for Stock-based Compensation Plans

The United States Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 ("SFAS 123") in October 1995. SFAS 123 requires that the compensation cost for stock-based compensation plans should be measured using a fair-value-based method. The Company currently calculates the compensation cost for its 1995 Employee Stock Option Plan in compliance with the provisions of the United States Accounting Principles Board ("APB") Opinion No. 25 which allows no compensation cost to be recorded provided the exercise price of the options granted is equal to the fair market value of the Company's common stock as at the date of grant. The Company intends to continue to follow APB Opinion No. 25 and to disclose in the notes to the financial statements the pro forma net earnings and earnings per share as if the fair-value method of measurement had been applied, as permitted by SFAS 123.

l. Recent Accounting Pronouncement

On March 3, 1997, FASB issued Statement No. 128 ("SFAS 128") "Earnings Per Share". This pronouncement provides a different method of calculating earnings per share, under accounting principles generally accepted in the United States, than previously under APB No. 15, "Earnings Per Share". SFAS No. 128 provides for the calculation of "Basic" and "Diluted" earnings per share. Basic earnings per share include no dilution and are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. The Company's current method of calculating earnings per share approximates, in all material respects, this new accounting pronouncement.

3. Financial Instruments and Concentration of Credit Risk

The financial instruments which potentially expose the Company to concentrations of credit risk are accounts receivable which are due primarily from distributors, resellers and OEM customers from around the world. The Company has credit evaluation, approval and monitoring processes and insurance coverage intended to mitigate potential credit risks. No single customer exceeds ten percent of the accounts receivable balance. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts amounting to $344,522 (1996 – $126,208). The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities approximates fair market value because of the short maturity of these instruments.

4. Inventories

Inventories consist of the following:

	1997	1996
Finished goods	**$ 1,352,025**	$ 1,727,432
Work in process	**120,365**	178,693
Parts and materials	**108,552**	157,220
	$ 1,580,942	$ 2,063,345

5. Capital Assets

Capital assets consist of the following:

As at May 31, 1997	Cost	Accumulated Amortization	Net Book Value
Office equipment	**$ 2,989,080**	**$ (2,071,924)**	**$ 917,156**
Computers and test equipment	**5,672,546**	**(4,221,492)**	**1,451,054**
Leasehold improvements	**710,100**	**(580,280)**	**129,820**
	$ 9,371,726	**$ (6,873,696)**	**$ 2,498,030**

As at May 31, 1996	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 2,702,633	$ (1,603,324)	$ 1,099,309
Computers and test equipment	5,402,362	(3,779,520)	1,622,842
Leasehold improvements	909,242	(692,305)	216,937
	$ 9,014,237	$ (6,075,149)	$ 2,939,088

6. Other Assets

Other assets consist of the following:

	1997	1996
Loans to shareholders, officers and directors	**$ 163,472**	$ 181,057
Investment tax credits recoverable	**6,205,912**	5,665,912
Deferred income taxes	**142,556**	426,198
	$ 6,511,940	$ 6,273,167

7. Share Capital

Authorized

The Corporation has authorized an unlimited number of common shares, without par value, which participate equally in dividends and entitle the shareholder to one vote per share at all meetings of shareholders.

Issuance of Shares and Options

On October 21, 1994, at the Corporation's Annual General and Special Meeting, a resolution to split all outstanding common shares on a two-for-one basis was approved by the Corporation's shareholders. The record date for the stock split was November 4, 1994. There were no fractional shares outstanding, therefore, there

remains no fractional shares subsequent to the stock split. There were no cash payments required by the shareholders or by the Corporation as a result of this transaction. All historic share values and information calculated based on the number of outstanding shares have been restated to give retroactive application to the two-for-one stock split approved by the Corporation.

The Corporation completed a private offering of 400,000 units in fiscal 1994 for gross proceeds of $8.00 U.S. per unit. Each unit consisted of one common share and one-half common share purchase warrant of the Corporation. Each whole warrant entitled the holder to purchase, at any time until the second anniversary of the closing date, two common shares of the Corporation at a price of $5.00 U.S. per share (following the November 1994 subdivision of the common shares on a two-for-one basis). During the second quarter of fiscal 1996, all of the warrants outstanding pursuant to the private offering of 400,000 units described above, were exercised for total proceeds received of approximately $2.7 million.

On September 29, 1995, the Corporation completed an offering of 1.5 million of its common shares at a price of $9.75 per share for total net proceeds received of approximately $13.4 million.

During the years ended May 31, 1997, 1996 and 1995, the Corporation issued 10,110, 39,304 and 30,740 common shares for cash consideration of $33,637, $91,129 and $57,725, respectively, as part of the 1995 Employee Stock Option Plan (the "Stock Option Plan") and the 1985 Employee Stock Option Plan.

The Corporation has reserved 500,000 common shares (excluding common shares underlying lapsed options) for issue under its Stock Option Plan. Under the Stock Option Plan, options can be granted to eligible employees, directors and officers of the Corporation or a subsidiary of the Corporation and any other person or company engaged to provide ongoing management or consulting services to the Corporation or a subsidiary of the Corporation. Options may be granted to purchase common shares of the Corporation at not less than market price of the common shares of the Corporation at the date of grant. Options are exercisable annually on a cumulative basis as to one-fifth of the optioned shares each year, for five years from the date of grant, at which time the option expires. Options may be exercised, in general, only if the optionholder remains continuously employed by the Corporation or a subsidiary of the Corporation from date of grant to exercise. The Stock Option Plan contains anti-dilution provisions and is administered by the Compensation Committee of the Board of Directors. To May 31, 1997, options have been granted under the Stock Option Plan on 400,300 common shares of which 48,814 have been exercised and 98,906 have lapsed. The following table summarizes information about options outstanding at May 31, 1997, for the Stock Option Plan:

Options Outstanding					Options Exercisable	
Fiscal Year Granted	Shares	Range of Exercise Price	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
1994	10,680	$2.05 - 4.00	1.5	$2.81	7,120	$2.81
1995	75,200	2.05 - 6.25	3.0	5.07	37,600	5.07
1996	107,200	2.05 - 5.75	3.8	3.29	42,880	3.29
1997	**59,500**	**$2.05 - 4.00**	**4.5**	**2.37**	**11,900**	**2.37**
Total	252,580		3.7	$3.58	99,500	$3.82

Transactions under the Stock Option Plan during fiscal 1997 are summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	260,340	$5.67
Granted	59,500	2.37
Exercised	10,110	3.33
Cancelled	57,150	5.52
Outstanding at end of year	252,580	$3.58
Options exercisable at end of year	99,500	
Options available for future grant	198,606	

7. Share Capital continued

Stock Compensation Value

The fair value of shares issued under the Stock Option Plan is estimated by using the Black-Scholes option pricing model with the following assumptions:

For the years ended May 31,	**1997**	1996
Expected life (years)	**5**	5
Risk-free interest	**5.00%**	5.00%
Volatility	**56.70%**	56.70%
Dividends	**0.00%**	0.00%

The weighted average fair value of options under the Stock Option Plan during 1997 and 1996 were $2.68 and $4.00, respectively. The fair value of each option was estimated on the date of grant using the Black-Scholes model with the aforementioned assumptions.

Had compensation cost for the Corporation's Stock Option Plan been determined on the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's pro forma net loss and net loss per common share would have been as follows:

For the years ended May 31,	**1997**	1996
Pro forma net loss	**$ (4,934,054)**	$ (3,791,350)
Pro forma net loss per common share	**$ (0.69)**	$ (0.59)

Shareholders' Rights Plan

The Corporation's Board of Directors adopted a shareholders' rights plan (the "Plan") effective May 1, 1997. The Plan is intended to provide the Board of Directors with additional time to consider certain unsolicited takeover bids and to pursue, if appropriate, other alternatives to maximize shareholder value, in circumstances such as a partial takeover bid for control. The rights issuable under the Plan would permit shareholders to purchase common shares from the Corporation at what is effectively a 50% discount to the then current market price of the Corporation's common shares if any person acquires or announces an intention to acquire 20% or more of the Corporation's common shares other than with the approval of the Corporation's Board of Directors, or pursuant to a "Permitted Bid" procedure, as defined by the Plan. The rights expire on May 1, 2007, unless earlier redeemed or exchanged. Shareholders will be asked to ratify the Plan at the Corporation's next Annual General and Special Meeting of shareholders and will be asked to reconfirm the Plan in five years.

8. Income Taxes

The components of loss before income taxes, together with related the income taxes provision (recovery) are set out as follows:

	1997	1996	1995
Loss before income taxes			
Americas	**$ (2,035,485)**	$ (2,800,778)	$ (646,976)
International	**(2,846,098)**	(1,447,602)	(139,270)
	$ (4,881,583)	$ (4,248,380)	$ (786,246)
Income tax expense (recovery)			
Current:			
Americas	**$ (288,559)**	$ 246,180	$ 331,887
International	**4,917**	45,000	(274,267)
Deferred - Americas	**283,642**	(784,036)	(245,713)
	$ (0)	$ (492,856)	$ (188,093)
Effective income tax rates	**0.0%**	11.6%	23.9%

The provisions for income tax expense (recovery) differ from those that would be obtained by applying the statutory rates as a result of the following:

	1997	1996	1995
Statutory rates (Canada)	**38.0%**	38.0%	38.0%
Expected income tax recovery	**$ (1,855,001)**	$ (1,614,384)	$ (298,773)
Use of prior years' losses	**(120,870)**	(181,341)	(390,132)
Portion of loss not recognized	**1,975,871**	1,302,869	500,812
Income tax recovery	**$ (0)**	$ (492,856)	$ (188,093)

Income taxes paid during the year amounted to approximately $273,000 (1996 – $428,000; 1995 – $351,000).

The deferred tax asset of $142,556 (1996 – $426,198) is primarily comprised of future tax deductions for capital assets in excess of accounting deductions. Realization of the asset is dependent on generating sufficient taxable income and has been recognized based on management's assessment of its likelihood of recovery.

Unrecorded Tax Assets

As at May 31, 1997, the Company had tax losses and discretionary tax deductions, the tax benefit of which has not been recognized, available to reduce future years' taxable income of approximately $11,433,000 (1996 – $7,225,000) in Canada, Europe and Asia. These losses expire as follows: 1998 – $218,000; indefinite – $11,215,000. The deferred tax asset relating to these losses of $4,345,000 (1996 – $2,746,000) has been offset by an equal amount of valuation allowance in each year.

9. Loss per Share

Loss per share has been calculated on the basis of net loss for the year divided by the daily weighted average number of common shares outstanding during each respective year. The daily weighted average number of shares outstanding used for the loss per share calculation as at May 31, 1997, was 7,165,950 (1996 – 6,468,110; 1995 – 5,202,000).

10. Commitments and Other Information

At May 31, 1997, the Company was obligated under operating leases primarily relating to office space to make the following minimum annual payments:

1998	$ 950,855
1999	793,433
2000	747,662
2001	570,215
2002	334,499
Thereafter	819,368
Total minimum lease payments	$ 4,216,032

Expenses incurred with respect to operating leases in fiscal 1997 were $1,290,000 (1996 – $1,380,000; 1995 – $1,120,000).

I. The Company has the following unused and available lines of credit as at May 31, 1997:
   a. an unsecured $4,000,000 line of credit bearing interest at the bank's prime rate, representing an effective interest rate of 4.75% at year end; and
   b. through its subsidiary, Perle Systems Europe Ltd., an unsecured U.S. $1,000,000 line of credit bearing interest at LIBOR, representing an effective interest rate of 5.83% at year end; and
   c. through its subsidiary, Perle Systems Europe Ltd., an unsecured U.S. $500,000 foreign exchange exposure facility.

10. Accounts payable and accrued liabilities consist of the following:

	1997	1996
Trade accounts payable	**$ 2,271,093**	$ 2,443,404
Accrued executive bonuses payable	**61,500**	400,000
Accrued marketing expenses payable	**348,287**	1,882,577
Accrued commissions payable	**667,329**	761,942
Other accrued liabilities	**2,886,461**	2,642,133
	$ 6,234,670	$ 8,130,056

Pursuant to the Company's executive bonus plan all officers are entitled to receive bonuses equal to a predetermined percentage of their annual base salary each year if the Company achieves the projected operating targets for such year as determined by the Board of Directors.

11. Segmented Information

Substantially all of the Company's operations are related to a single industry segment, the business of designing, manufacturing and selling proprietary computer connectivity products.

The Company had no individual customer whose accumulated sales represented more than ten percent of total sales during the current year.

The following information relates to geographic segments of the Company:

	1997	1996	1995
Sales:			
Americas	**$ 32,798,363**	$ 35,291,311	$ 30,041,665
International	**18,671,338**	20,501,369	14,914,808
Geographic transfers	**(7,521,021)**	(9,494,403)	(7,562,264)
Consolidated sales	**$ 43,948,680**	$ 46,298,277	$ 37,394,209
Operating Loss:			
Americas	**$ (2,149,830)**	$ (2,322,445)	$ (297,717)
International	**(2,012,444)**	(1,267,762)	(10,997)
Net corporate items	**(719,309)**	(658,173)	(477,532)
Consolidated loss before income taxes	**$ (4,881,583)**	$ (4,248,380)	$ (786,246)
Identifiable Assets:			
Americas	**$ 10,942,562**	$ 11,583,849	$ 8,194,754
International	**6,509,907**	7,901,254	5,231,005
Corporate assets	**11,233,319**	15,392,976	6,738,400
Consolidated total assets	**$ 28,685,788**	$ 34,878,079	$ 20,164,159

The Americas geographic segment includes the United States, Canada and Latin America.

The International geographic segment includes sales in Europe, the Middle East, Africa, Asia including Japan, and Australasia.

Geographic transfers represent sales from the Canadian manufacturing facility to other segments and have been transacted at fair value.

Operating loss represents loss after the elimination of profits on intercompany transactions.

Net corporate items include foreign exchange, interest, salaries and general administrative expenses of the corporate group and investment tax credits accrued.

Corporate assets include cash, loans to shareholders, officers and directors, and investment tax credits recoverable.

STOCKHOLDER INFORMATION

Registrar and Transfer Agents

Inquiries regarding lost certificates, consolidation of accounts and changes in address, name or ownership should be addressed to either/or:

American Stock Transfer & Trust Company
99 Wall Street
New York, New York
USA 10005

CIBC-Mellon Trust Company
393 University Avenue, 5th Floor
Toronto, Ontario
Canada M5G 2M7

Investor Relations

The Form 10-K Annual Report and Form 10-Q Quarterly Report to the Securities and Exchange Commission provide further details on Perle's business. Copies of these reports, annual reports and/or quarterly reports may be obtained upon request to:

Perle Systems Limited
Investor Relations Department
100-60 Renfrew Drive
Markham, Ontario
Canada L3R 0E1
Phone: 905 946-5004
Fax: 905 475-2377
Email: invest@perle.com
Website: http://www.perle.com

Stock Listings

National Association of Securities Dealers Automated Quotation System ("PERLF")

The Toronto Stock Exchange ("PL")

Annual Meeting

Shareholders are invited to attend the 1997 Annual General and Special Meeting, which is scheduled for Wednesday October 1, 1997, at 10:00 a.m. in Toronto, Ontario.

Selected Quarterly Financial Information

(Unaudited, in thousands, except per share data) (Canadian dollars)

	Sales	Gross Profit	Net Income (Loss)	Earnings (Loss) per Share
1997				
1st Quarter	$ 9,470	$ 5,723	$ (2,483)	$ (0.35)
2nd Quarter	10,013	6,049	(3,249)	(0.45)
3rd Quarter	10,540	6,924	(395)	(0.05)
4th Quarter	13,926	9,645	1,245	0.17
Total	$ 43,949	$ 28,341	$ (4,882)	$ (0.68)
1996				
1st Quarter	$ 9,806	$ 6,458	$ (108)	$ (0.02)
2nd Quarter	9,588	5,998	(877)	(0.16)
3rd Quarter	10,880	6,769	(855)	(0.14)
4th Quarter	16,024	9,473	(1,916)	(0.26)
Total	$ 46,298	$ 28,698	$ (3,756)	$ (0.58)
1995				
1st Quarter	$ 7,869	$ 5,240	$ (329)	$ (0.06)
2nd Quarter	8,711	5,565	(900)	(0.17)
3rd Quarter	9,844	6,222	(97)	(0.02)
4th Quarter	10,970	7,337	728	0.14
Total	$ 37,394	$ 24,364	$ (598)	$ (0.11)

Stock Prices

	NASDAQ (US dollars)			TSE (Cdn dollars)		
	High	Low	Volume	High	Low	Volume
1997						
1st Quarter	$4.88	$2.38	3,020,043	$6.50	$3.75	690,420
2nd Quarter	$4.06	$2.63	3,696,589	$5.30	$3.60	948,214
3rd Quarter	$3.56	$2.25	3,158,868	$5.20	$3.00	791,716
4th Quarter	$2.44	$0.78	1,023,590	$3.10	$1.10	445,259
1996						
1st Quarter	$9.25	$4.63	214,380	$12.00	$6.63	55,840
2nd Quarter	$8.25	$5.50	115,483	$10.25	$7.88	850,209
3rd Quarter	$6.13	$4.00	75,885	$8.25	$5.50	470,018
4th Quarter	$5.38	$3.25	797,057	$7.10	$4.25	838,883
1995						
1st Quarter	$4.63	$2.75	3,000	n/a	n/a	n/a
2nd Quarter	$4.38	$2.50	72,500	n/a	n/a	n/a
3rd Quarter	$4.50	$3.00	26,200	n/a	n/a	n/a
4th Quarter	$5.50	$3.50	636,025	$6.50	$6.50	200

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

James D. Bolin *Vice-President* • age 56 • Vice-President of the Corporation and President of the U.S. Operations
Mr. Bolin holds a Bachelor of Science degree in Business Administration and is a Certified Public Accountant. He was employed in various management positions in Price Waterhouse, The Ford Motor Company, and Colorado Interstate Corporation and was General Manager of the Digital Systems Division of Texas Instruments prior to joining the Corporation in 1987. He served as President of the Canada Asia Pacific Division from 1990 to 1996 and currently is a Vice-President of the Corporation and President of Perle Systems Inc., the Corporation's U.S. subsidiary.

Lawrence Chernin *Director* • age 46 • Partner, Goodman and Carr, Barristers and Solicitors
Mr. Chernin holds a Bachelor of Arts degree, a Bachelor of Civil Law and an LL.B. all from McGill University. He has been a partner in the law firm of Goodman and Carr, Toronto, since 1984. He is a member of the Canadian Bar Association and the Law Society of Upper Canada.

John L. Feeney *Vice-President* • age 39 • Vice-President, Product Group of the Corporation
Mr. Feeney holds a Bachelor of Engineering (Electrical) degree from McMaster University and is a member of the Association of Professional Engineers of Ontario. He joined the Corporation in 1982 and held a variety of positions in the Corporation's product development group before being appointed Vice-President, Product Group in 1994.

J. Douglas Langford *Vice-President, Finance and Chief Financial Officer* • age 46 • Vice-President, Finance and Chief Financial Officer of the Corporation
Mr. Langford held several managerial positions at Ernst & Young, Chartered Accountants, over a period of 11 years before joining the Corporation in 1985 as Vice-President, Finance. Mr. Langford holds a Bachelor of Science degree in Mathematics from the University of Western Ontario. He received his Chartered Accountant designation from the Institute of Chartered Accountants of Ontario in 1977 and is a member of the Canadian Institute of Chartered Accountants.

Geoffrey Matus *Director* • age 48 • Chairman of H.O. Financial Limited
Mr. Matus has served as a director of the Corporation since 1980. He holds a Bachelor of Commerce (Accounting and Business Administration) and a Bachelor of Law from the University of Witwatersrand, South Africa, and a Master of Law degree from Columbia University. Since 1984, he has served as Chairman of the Board of H.O. Financial Limited, an Ontario publicly held investment company.

Joseph E. Perle *President, Chief Executive Officer and Director* • age 51 • President, Chief Executive Officer and Chairman of the Board of Directors of the Corporation
Mr. Perle, who is Chairman of the Board, President and Chief Executive Officer, is the founder of the Company. He received his Bachelor of Applied Science (Engineering) degree from the University of Toronto in 1969, specializing in physics and mathematics. He was employed by IBM from 1970 to 1976 in increasingly more responsible engineering management positions.

E. Duff Scott *Director* • age 60 • President of Multibanc Financial Corp.
Mr. Scott is currently the President of Multibanc Financial Corp., a financial services company. He is Chairman of the Board of QLT PhotoTherapeutics Inc., a publicly traded biopharmaceutical company. He is a Director of First Commonwealth Fund Inc., a registered investment company publicly traded on the New York Stock Exchange, as well as a number of Canadian publicly traded companies. Mr. Scott is a former Chairman of the Toronto Stock Exchange.

Nir Shafrir *Director* • age 39 • Director of Globelle Corporation
Mr. Shafrir has served as a director of the Corporation since 1990. He is a director of Globelle Corporation ("Globelle"), a company which he founded in 1985. Globelle, an Ontario publicly held company, distributes computer components.

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FIVE YEAR SUMMARY

(in thousands of Canadian dollars)	1997	% change	1996	% change	1995 (1)	% change	1994 (1)	% change	1993 (1)
Operations									
Sales	43,949	-5%	46,298	24%	37,394	16%	32,254	12%	28,914
Cost of sales	15,608	-11%	17,600	35%	13,030	26%	10,360	2%	10,133
Gross profit	28,341	-1%	28,698	18%	24,364	11%	21,894	17%	18,781
Selling, general and administration	26,588	-1%	26,782	47%	18,182	13%	16,149	9%	14,792
Research & development expenditures (net of ITCs)	5,736	2%	5,611	-9%	6,190	99%	3,111	23%	2,533
Amortization of capital assets	1,005	16%	867	17%	744	-4%	775	3%	754
Income tax expense (recovery)	–		(493)		(188)		761		446
Net income (loss) for the year	(4,882)		(3,756)		(598)		1,158		419
Gross profit margin	64.5%		62.0%		65.2%		67.9%		65.0%
Cash provided from (used in) operating activities	(4,169)		(6,598)		(2,212)		1,660		(2,393)
Number of employees	188	-22%	242	28%	189	6%	179	13%	158
Financial Condition									
Cash and cash equivalents	4,864		9,546		2,110		5,308		1,020
Working capital	11,044		15,689		5,319		7,893		3,679
Total assets	28,686		34,878		20,164		20,541		13,781
Long-term debt	–		–		–		–		–
Common shareholder's equity	20,054		24,902		12,520		13,060		7,997
Common shares outstanding									
Weighted	7,166		6,468		5,202		4,818		4,322
Year end	7,173		7,162		5,223		5,192		4,351
Return on common shareholder's equity	-21.72%		-20.07%		-4.68%		11.00%		5.41%
Ratios (XX.1)									
Current ratio	2.28		2.57		1.73		2.15		1.64
Quick ratio	2.10		2.37		1.34		1.77		1.23
Capital Markets									
Per Share									
Basic earnings (loss) (cents)	(0.68)		(0.58)		(0.11)		0.24		0.10
Cash dividends (cents)	–		–		–		–		–
Price earnings multiple	n/a		n/a		n/a		21.58		50.98
Price sales multiple	0.31		0.95		0.86		0.83		0.77

Notes:

(1) Restated for change in accounting policy implemented in fiscal 1996. All historic share values and information calculated based on the number of outstanding shares have been restated to give retroactive application to the two-for-one stock split approved by the Company during fiscal 1995.

PERLE®

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